

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 EA-11 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-10 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 NEA-10

DRC-01 /178 W

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P 221530Z FEB 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 7031

LIMITED OFFICIAL USE SECTION 1 OF 2 PARIS 4616/1

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: WORLD MONETARY AND TRADE RELATIONSHIPS C-ER-
57864

REF: STATE 032727

FOLLOWING ARE COMMENTS ON RANGE OF ISSUES LISTED IN
REFTEL. MATERIAL IN REPLY TO EACH SPECIFIC QUESTION
IS GROUPED UNDER SAME PARAGRAPH NUMBER AS THAT
ASSIGNED TO QUESTION IN REFTEL.

1. FRENCH EXCHANGE RATE POLICY UNDERWENT MAJOR
CHANGE IN JANUARY, WHEN FRANCE DECIDED WITHDRAW FROM
EUROPEAN MONETARY "SNAKE" AND ALLOW FRANC TO FLOAT
INDEPENDENTLY FOR PERIOD OF SIX MONTHS. PARIS 1654,
PARIS 1928, PARIS 1998, PARIS 2757, PARIS A-70, PARIS
3283, PARIS 3412, PARIS 3609 AND PARIS A-96 ARE ALL
ADDRESSED, EITHER WHOLLY OR IN PART, TO THIS DECISION,
ITS ORIGINS AND ITS LIKELY CONSEQUENCES. THERE IS
SOME AMBIGUITY IN FRENCH GOVT'S EXPLANATIONS OF WHAT
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IT HOPES TO ACCOMPLISH THROUGH INDEPENDENT FLAT. ON

THE ONE HAND, OFFICIAL SPOKESMEN HAVE STATED THAT FLOAT WOULD PROMOTE HIGH PRIORITY OBJECTIVE OF MAXIMIZING EXPORTS; YET THIS RESULT COULD COME ABOUT ONLY IF FLOAT LED TO SOME SIGNIFICANT DEGREE OF DEPRECIATION OF FRENCH FRANC AGAINST CURRENCIES OF FRANCE'S MAJOR TRADING PARTNERS. ON THE OTHER HAND, OFFICIAL SPOKESMEN HAVE DENIED THAT FLOAT WAS DESIGNED TO BRING ABOUT DISGUISED DEVALUATION OR ACHIEVE TRADE ADVANTAGE THROUGH EXCHANGE RATE MANIPULATION. MOREOVER, THIS POINT HAS BEEN MORE HEAVILY STRESSED THAN MATTER OF EXPORTS, THUS, FRENCH SEEM TO BE SAYING THAT THEY WOULD BE SATISFIED WITH A RATE STRUCTURE FOR FLOATING FRANC THAT WAS SIMILAR TO THE ONE PREVAILING ON EVE OF FLOAT DECISION, PROVIDED THIS STRUCTURE DID NOT HAVE TO BE MAINTAINED AT COST OF HEAVY RESERVE LOSSES. INDEED, FINANCE MINISTER HAS, IN SEVERAL RECENT PUBLIC STATEMENTS, POINTED WITH SATISFACTION TO RECENT APPRECIATION OF FRANC AGAINST DOLLAR. ONE IMPORTANT CONSIDERATION HERE IS THE EFFECT SUCH APPRECIATION HAS OF HOLDING DOWN FRANC VALUE OF DOLLAR-DENOMINATED OIL IMPORT BILL. ON THE DOWNSIDE, BOTH FRENCH TREASURY AND BANK OF FRANCE OFFICIALS HAVE INDICATED TO US AWARENESS THAT TOO SHARP A DEPRECIATION OF FRANC WOULD PRODUCE POLITICALLY, ECONOMICALLY AND SOCIALLY UNACCEPTABLE CONSEQUENCES IN FRANCE.

2. DEPARTURE OF FRENCH FROM "SNAKE" SIGNIFIES THAT FRENCH AUTHORITIES ARE NOT WILLING, IN FACE OF UNDERTAIN PAYMENTS OUTLOOK, TO GO ON SPENDING RESERVES TO MAINTAIN PUBLICLY SPECIFIED FIXED RATE RELATIONSHIP, EVEN BETWEEN FRANC AND LIMITED NUMBER OF CURRENCIES. FINANCE MINISTER HAS STATED THAT THEY WOULD INTERVENE, HOWEVER, TO MAINTAIN ORDERLY MARKET CONDITIONS, AND DURING FIRST WEEK OF INDEPENDENT FLOAT (JAN 21-25) THEY FED AN ESTIMATED \$450 OR \$500 MILLION INTO MARKET FOR THAT PURPOSE. IF TRADE AND CURRENT ACCOUNT DEFICITS DEVELOP IN 1974 ON SCALE NOW EXPECTED, OFFICIAL INTERVENTION WILL DOUBTLESS BE NECESSARY FROM TIME TO TIME TO ASSURE MARKET EQUILIBRIUM. FOR THIS, LIMITED OFFICIAL USE

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MONETARY AUTHORITIES WILL CERTAINLY DRAW FIRST UPON "BORROWED RESERVES," SUCH AS PROCEEDS OF RECENT 1.5 BILLION EURO-DOLLAR BORROWING BY FRENCH TREASURY. OUR GUESS -- BUT IT IS ONLY A GUESS -- WOULD BE THAT FRANCE WOULD BE QUITE READY TO ABSORB SIGNIFICANT AMOUNTS OF RESERVES TO ARREST ANY SUSTAINED UPWARD MOVEMENT OF FRANC, ESPECIALLY BEARING IN MIND SUBSTANTIAL RESERVE LOSSES THEY HAVE SUFFERED SINCE

MID-1973 RESERVE PEAK (ABOUT \$3.3 BILLION). IN
MONTHLY TV APPEARANCE IN MID-FEB, FINANCE MINISTRY
SAID THAT BANK OF FRANCE HAD BOUGHT ABOUT \$60 MILLION
DURING LAST WEEK OF JAN AND FIRST HALF OF FEB. (SEE
ALSO PARAGRAPH 1 ABOVE.)

3. ALTHOUGH FINANCE MINISTER HAS SPOKEN
PUBLICLY AT GREAT LENGTH ON SEVERAL OCCASIONS IN
RECENT WEEKS ABOUT VARIOUS ASPECTS OF C-20
NEGOTIATIONS, WE DO NOT BELIEVE HE HAS EVEN TOUCHED ON
QUESTION OF INTERNATIONAL RULES FOR FLOATING. FRENCH
TREASURY DIRECTOR (WHO IS ALSO FRENCH C-20 DEPUTY)
HAS TOLD US PRIVATELY THAT DESPITE DECISION TO FLOAT
FRANC, FRENCH HOLD TO THEIR LONGSTANDING POSITION
THAT MONETARY REFORM SHOULD PROVIDE FOR MAXIMUM DEGREE
OF RATE STABILITY, WITH MINIMUM EMPHASIS ON FLOATING.
ON ACCASION OF THIS DISCUSSION, WE TRIED TO GET HIM
TO INDICATE FRENCH THINKING ABOUT WHAT WOULD BE APPRO-
PRIATE RULES FOR FLOATING, BUT HE DUCKED. THIS
PROBABLY MEANS THAT FRENCH HAVE NOT YET HAMMERED OUT
ANY WELL-DEFINED POSITION ON THE MATTER.

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ACTION EB-11

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CIAE-00 CIEP-02 COME-00 DODE-00 FEA-02 FPC-01 H-03

INR-10 INT-08 L-03 NSAE-00 NSC-10 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SPC-03 SS-20 STR-08 TRSE-00 NEA-10

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 7032

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4. FRENCH MONETARY POLICY IS VERY TIGHT AND LIKELY TO REMAIN SO FOR SOME TIME. FIRST, MONETARY POLICY IS ONE OF PRINCIPAL INSTRUMENTS OF FRENCH ANTI-INFLATIONARY PROGRAM. SECOND, FRENCH HOPE THAT BY MAINTAINING TIGHT MONEY AND HIGH INTEREST RATES IN FRANCE, THEY CAN ATTRACT CAPITAL INFLOWS TO HELP OFFSET ANTICIPATED CURRENT ACCOUNT DEFICIT (SEE PARIS A-70). THESE STRINGENT MONETARY CONDITIONS MAY WELL SPUR FRENCH INDUSTRY TO LOOK FOR FUNDS OUTSIDE FRANCE. HOWEVER, WE BELIEVE MAJOR PORTION OF EXTERNAL BORROWING WILL BE ACCOMPLISHED THROUGH DIRECT ACTIONS OF FRENCH TREASURY. THIS IS CASE OF 1.5 BILLION EURO-DOLLAR BORROWING THAT HAS ALREADY TAKEN PLACE. TREASURY IS ALSO "COUNSELING" LARGE NATIONALIZED ENTERPRISES TO BORROW ABROAD. DELOUVIER, HEAD OF ELECTRICITE DE FRANCE, RECENTLY TOLD US THAT TREASURY WAS SO PRESSING EDF, AND YESTERDAY IT WAS ANNOUNCED THAT EDF IS CONTRACTING 500 MILLION EURO-DOLLAR BANK LOAN WITH CONDITIONS VERY SIMILAR TO RECENT TREASURY OPERATION. NATIONAL TELECOMMUNICATIONS FUND, WHICH FINANCES EXPANSION OF FRENCH TELEPHONE NETWORK, AND SNCF (RAILROADS) LIMITED OFFICIAL USE

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ARE BOTH SEEKING TO FLOAT IN U.S. MARKET BOND ISSUES CARRYING FRENCH GOVT GUARANTEE. APPARENTLY, ONE QUESTION WHICH THESE PROSPECTIVE BORROWERS HAVE RAISED WITH FRENCH AUTHORITIES IS PROTECTION AGAINST EXCHANGE RISKS ON THESE DOLLAR-DENOMINATED LIABILITIES.

5. REFERENCES CITED IN PARAGRAPH 1 ABOVE CONTAIN CONSIDERABLE MATERIAL RE FRENCH POSITION ON GOLD.

IN ADDITION, SEE PARIS 29343, PARIS 29366 AND PARIS 30004 FOR VIEWS EXPRESSED BY FRENCH OFFICIALS FOLLOWING LAST NOVEMBER'S DECISION TO TERMINATE 1968 WASHINGTON GOLD AGREEMENT.

6. ON CONCRETE STEPS TAKEN OR CONTEMPLATED TO REDUCE IMPACT OF OIL PRICE RISE ON CURRENCY AND TRADE RELATIONSHIPS, FLOAT AND EXTERNAL BORROWING ARE DISCUSSED ABOVE. IN ADDITION, FRENCH HAVE MADE OVERTURES TO A NUMBER OF OIL -EXPORTING COUNTRIES WITH A VIEW TO WORKING OUT BILATERAL DEALS WITH THEM. AS EXPLAINED TO US BY DIRECTOR OF ECONOMIC AFFAIRS, MFA, PURPOSE OF THESE EFFORTS IS NOT TO NAIL DOWN OIL SUPPLIES, BUT RATHER TO SELL GOODS IN ORDER TO HELP PAY FOR OIL (PARA 7, PARIS 4181). WITH EXCEPTION OF NEAR-TERM CONTRACT WITH SAUDI ARABIA (30 MILLION TONS OVER THREE YEARS), THESE ARRANGEMENTS ARE ALL STILL IN THE "IN PRINCIPLE" STAGE. MOREOVER, THERE ARE REPORTS

THAT FINANCE MINISTER DISCARD D'ESTAING IS UNHAPPY ABOUT BILATERAL APPROACH PUSHED BY FOREIGN MINISTER JOBERT. GISCARD SUPPOSEDLY FEARS IT COULD COMMIT TO BUYING OIL OVER CONSIDERABLE PERIOD AT UNREASONABLE PRICES. SECOND, PRIME MINISTER HAS ANNOUNCED NEW STEPS WILL BE TAKEN IN MARCH TO ECONOMIZE FRENCH CONSUMPTION OF ENERGY. FINALLY, FINANCE MINISTER HAS SEVERAL TIMES SAID HE WOULD ANNOUNCE IN LATE WINTER OR EARLY SPRING SERIES OF MEASURES TO STIMULATE EXPORTS. SO FAR, ONLY STEP MENTIONED OFFICIALLY IS SOME IMPROVEMENT IN EXPORT CREDIT INSURANCE MECHANISM. PRESS REPORTS SAY THAT FINANCE MINISTRY IS ALSO STUDYING POSSIBILITY OF ACCELERATED DEPRECIATION ALLOWANCE FOR FIRMS THAT ACHIEVE SPECIFIED EXPORT LIMITED OFFICIAL USE

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TARGETS. ON TRADE PROMOTION FRONT, MINISTER HAS SAID IN SEVERAL RECENT PUBLIC STATEMENTS THAT IN ADDITION TO MARKET OF OIL PRODUCERS, FRANCE SHOULD MAKE SPECIAL EFFORT TO IMPROVE ITS POSITION IN U.S. AND OTHER NORTH AMERICAN MARKETS AND IN MARKETS OF OTHER COUNTRIES THAT ARE LARGE-SCALE EXPORTERS OF PRIMARY PRODUCTS.

7. IN THEIR NUMEROUS PUBLIC PRONOUNCEMENTS RE INCIDENCE OF OIL PRICES ON WORLD PAYMENTS SITUATION, FRENCH OFFICIAL SPOKESMEN HAVE CURIOUSLY NOT ADDRESSED QUESTION OF RECYCLING OIL REVENUES AND SPECIAL FINANCIAL ARRANGEMENTS TO MITIGATE IMPACT OF INCREASED OIL PRICES ON LDCS. REPORT CIRCULATING IN PARIS AT TIME OF C-20 MINISTERIAL MEETING IN ROME WERE TO EFFECT THAT FINANCE MINISTER GISCARD D'ESTAING KEPT QUIET DURING C-20 DISCUSSION OF THESE TOPICS.
IRWIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PRODUCTS, FOREIGN POLICY POSITION, PRICES, BALANCE OF PAYMENTS, CURRENCY CONTROLS, FINANCIAL PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PARIS04616
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740215/aaaaaofu.tel
Line Count: 260
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 032727
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 25 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 APR 2002 by elyme>; APPROVED <10 JUN 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: WORLD MONETARY AND TRADE RELATIONSHIPS C-ER- 57864
TAGS: EFIN, FR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005